

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	645.53	645.53	660.53	662.53	645.53	662.53	17.00	2.63%
Personal Services	31,541,481	34,079,740	36,002,495	36,242,942	65,621,221	72,245,437	6,624,216	10.09%
Operating Expenses	18,434,552	18,119,477	19,843,867	19,571,313	36,554,029	39,415,180	2,861,151	7.83%
Equipment & Intangible Assets	220,095	181,863	220,095	220,095	401,958	440,190	38,232	9.51%
Local Assistance	0	0	0	0	0	0	0	0.00%
Benefits & Claims	0	0	0	0	0	0	0	0.00%
Transfers	0	0	0	0	0	0	0	0.00%
Debt Service	0	972	0	0	972	0	(972)	(100.00%)
Total Costs	50,196,128	52,382,052	56,066,457	56,034,350	102,578,180	112,100,807	9,522,627	9.28%
General Fund	46,999,289	48,766,397	52,371,412	52,331,809	95,765,686	104,703,221	8,937,535	9.33%
State Special	823,595	882,192	999,460	999,908	1,705,787	1,999,368	293,581	17.21%
Federal Special	194,192	424,881	209,295	208,466	619,073	417,761	(201,312)	(32.52%)
Other	2,179,052	2,308,582	2,486,290	2,494,167	4,487,634	4,980,457	492,823	10.98%
Total Funds	50,196,128	52,382,052	56,066,457	56,034,350	102,578,180	112,100,807	9,522,627	9.28%

Agency Description

Mission Statement: The Department of Revenue implements Montana's tax laws to achieve equity and integrity, while protecting taxpayer rights and information; values all property as accurately as possible and supervises Montana's property tax system; administers liquor laws to protect public health and safety; informs and advises the Governor, the legislature and the public on tax trends and issues; and cooperates with local, state, tribal and federal governments to advance the public interest under the law.

The Department of Revenue collects revenue from and enforces regulations for 38 state taxes and fees; values all property in the state and supervises the property tax system; regulates the sale and distribution of alcoholic beverages in the state; and administers abandoned property laws and a one-stop business registration system for multiple agencies.

Agency Highlights

Department of Revenue Major Budget Highlights	
♦	The proposed HB 2 budget for the department would increase by \$9.5 million or 9.3 percent from the 2009 biennium to the 2011 biennium <ul style="list-style-type: none"> Personal services in the statewide present law adjustment accounts for the largest share of the increase due primarily to the phased conversion to the broadband pay plan during FY 2008 that would add \$7.7 million Other statewide present law adjustments for fixed costs and inflation would add \$1.7 million Purchasing handheld personal computers for field staff would add \$0.8 million Efforts to address workload impacts of growing parcel counts would add \$0.4 million and 2.00 FTE in FY 2011 Continuation of tobacco tax compliance efforts started in the 2009 biennium would add \$0.4 million and 3.00 FTE
♦	Department staff would increase by 17.00 FTE including: <ul style="list-style-type: none"> 15.00 FTE to continue tax compliance activities funded for the 2009 biennium without FTE (no funding impact)

<ul style="list-style-type: none"> • 2.00 FTE to address workload impacts resulting from increasing property parcel counts (beginning in FY 2011)
Major LFD Issues
<ul style="list-style-type: none"> ◆ Three language appropriations to fund liquor distribution related functions could be regular HB 2 appropriations ◆ Objectives for agency and program goals could be strengthened

Agency Discussion

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

2009 Biennium Major Goals

The following provides an update on the major goals monitored during the current interim

Three goals were reviewed during the interim:

Goal 1: Prevent tax increases, aid taxpayers in following the law, ensure fiscal responsibility, protect Montana businesses from unfair competition, and improve tax fairness and integrity in Montana's current tax laws

- Challenges
 - Baseline data is still being collected and performance measures are still being developed

Goal 2: Expand convenient and cost-saving electronic filing services for Montana taxpayers

- Successes
 - Free Internet filing of mineral royalty withholding annual reconciliation forms
 - Free Internet filing of employer withholding annual reconciliation forms
 - Free Internet filing of individual income tax Form 2M returns and Elderly Homeowner/Renter Credit (2EC) returns
 - Free Internet filing of wine tax returns
 - Provided for electronic filing of corporation license tax returns under the fed/state modernized e-file program

Goal 3: Complete the current reappraisal cycle in a uniform and equitable fashion by January 1, 2009

2011 Biennium Major Goals

The following goal for the 2011 biennium and key objectives were included in the executive budget for the department:

- Continue to provide citizens, businesses, and nonresidents with quality value-added services, and continuously improve taxpayer assistance and customer services by developing new outreach programs and improving electronic assistance services

- Provide taxpayers and business owners with, among other things, an understanding of Montana's tax laws and regulations, answers to complex tax questions, assistance in meeting their filing requirements electronically, and advice on how to reclaim unclaimed property, through development and implementation of a Taxpayer and Small Business Assistance Program that operates in conjunction with tax practitioners, local economic development corporations, and a variety of private sector organizations such as AARP and Volunteer Income Tax Assistance (VITA)
- Under the guidance and direction of the department's "writing project", review and rewrite all department system-generated communications to citizens and businesses to ensure that communications reflect a proper combination of readability, respect for the citizen, effectiveness in achieving intended results, responsibility, and accountability by the department, and other positive qualities of communications. Provide training to department employees on the proper use of these communication tools
- Provide accurate responses to inbound calls, minimize the need to transfer customer calls, and develop a system of measuring the accuracy, efficiency, and effectiveness of our responses to taxpayer calls
- Provide a convenient accessible and timely system for the business community to acquire and maintain the state regulations and licenses necessary to conduct business in the state by augmenting the current one-stop business licensing system with the development of an online registration system for all business licenses, fees, and permits

Other goals provided for the 2011 biennium are program goals and are addressed in the respective program discussions that follow.

LFD ISSUE

Objectives Could Be Strengthened with Time-bound Metrics and Specified Outcomes

The objectives could be strengthened by including specific outcomes along with measures and their timing for assessing if the outcomes were being attained. For example, the objective associated with taxpayer calls seeks to improve accuracy, minimize unneeded call transfers, and measure responses for taxpayer calls, but doesn't specify what level of improvements are targeted with the funding requested for the 2011 biennium. The department doesn't just measure calls just to measure them; they measure calls to develop data to identify performance with the eye on making improvements. Specifying what targeted level of improvements are planned, as well as what will be measured and when it will be measured to verify that efforts are leading to the intended outcomes, would strengthen the objectives for this goal.

The legislature may wish to discuss with the division how it could strengthen the objectives with more specifics and linkage to the funding request.

2009 Biennium Funding Summary and Continuation of Compliance Initiatives in the 2011 Biennium

The 2007 Legislature approved funding for the 2009 biennium that added nearly \$37.0 million total funds for the 2009 biennium. Although funding was at nearly the level requested by the executive, significantly lower FTE levels were approved than requested. The 2007 legislature included funding for 36.75 FTE, or 65.75 FTE fewer than the 102.50 FTE requested for the 2009 biennium. Many of the FTE added were to enhance compliance in various tax areas or to address workload impacts due to increasing property parcel counts or property reappraisal.

Decision packages for the 2011 biennium request legislative approval to add a portion of the FTE not approved for the 2009 biennium for tax compliance or to further address workload impacts of appraisal staff due to rising parcel counts. As stated above, the Legislative Finance Committee monitored the goals related to property reappraisal and tax compliance. Benchmark information for tax compliance was being developed during the interim, but performance measures were never completely developed to show progress toward improving tax compliance. Instead, the department reported on revenues generated from tax compliance efforts.

The following decision packages are included to add 15.00 FTE for tax compliance for the 2011 biennium:

- DP 70002 – Nonresident and Nonfiler Tax Compliance (12.00 FTE)
- DP 70003 – Reduce Smoking Through Tobacco Tax Compliance (3.00 FTE)

There is further discussion, including the use of performance measures to determine success, in the Business and Income Taxes Division.

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Agency Market**

- Agency policy specifies entry at 80 percent of the adopted market survey pay schedule
- The department has adopted an independent market survey pay schedule that is different than the 2008 executive branch market survey. Per the agency, this was done to better reflect market pay for occupations represented in the agency
- The agency policy is that all positions would progress to the target market ratio goal of 95 percent of market, as identified in the independent market survey, within five years of entering their occupational pay range. The agency estimates the personal services budget for the 2011 biennium would place the agency, on average, at 92.7 percent of the market of the independent market survey, which corresponds to 94.0 percent of market relative to the 2008 executive branch market survey
- The agency has converted all employees to the broadband pay plan as required in HB 13 of the 2007 Legislature
- The agency states that since implementing the broadband pay plan and the agency market policy all programs have seen less turnover and fewer vacancies
- The agency implemented the broadband pay plan by holding positions open and using the savings from these vacancies, HB 2 personal services funding, and HB 13 funding to place employees into a pay structure that ranges from 80 to 95 percent of market as determined in an independent market survey developed by a contractor of the agency

- **Legislatively Imposed Vacancy Savings**

- The agency used normal staff turnover to manage to the 4.0 percent legislatively applied vacancy savings rate. The agency achieved the savings in FTE-hours

LFD COMMENT	In terms of FTE-hours, the department experienced nearly a 9.0 percent vacancy rate for HB 2 positions. Eliminating the impact of the legislatively imposed 4 percent vacancy savings, the department under spent its personal services authority appropriated by the 2007 Legislature by 7.4 percent.
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- **Obstacles**

- The agency has identified no obstacles to achieving its target market goal of 95 percent of market relative to the adopted market survey

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2011 Biennium Budget						
Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
01 Directors Office	\$ 11,639,576	\$ 218,293	\$ 1,000	\$ 181,309	\$ 12,040,178	10.74%
02 Information Technology & Processing	26,320,919	264,798	-	153,123	26,738,840	23.85%
03 Liquor Control Division	-	-	-	4,543,133	4,543,133	4.05%
05 Citizen Services & Resource Mgmt	4,083,182	300,542	-	102,892	4,486,616	4.00%
07 Business And Income Taxes Division	20,333,123	1,086,770	416,761	-	21,836,654	19.48%
08 Property Assessment Division	42,326,421	128,965	-	-	42,455,386	37.87%
Grand Total	<u>\$ 104,703,221</u>	<u>\$ 1,999,368</u>	<u>\$ 417,761</u>	<u>\$ 4,980,457</u>	<u>\$ 112,100,807</u>	<u>100.00%</u>

The department is primarily funded with general fund. Proprietary funds support the operation of the Liquor Control Division and other divisions that support liquor control functions or the staff of the Liquor Control Division. State special revenue funds coordination of one stop business licensing activities and collection of water adjudication fees. State special revenue is also from the property valuation improvement fund and is used for increasing the efficiency of the property appraisal, assessment, and taxation process through improvements in technology and administration. Federal special revenue supports mineral royalty audit.

Statutory Appropriations

The following figure shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Department of Revenue					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<u>Does Not Relate Directly to Agency Operations</u>					
Reduced property tax reimbursement	15-1-111	General Fund	\$1,204,209	\$200,000	\$400,000
Local government entitlements	15-1-121	General Fund	88,939,032	96,065,109	100,497,690
Redistribution of coal gross proceeds	15-23-706	SSR	1,485,711	2,000,000	2,300,000
Distribute oil and gas production taxes to eligible counties	15-36-332	SSR	154,857,288	101,753,000	126,308,000
Distribution to counties impacted by mining	15-37-117	SSR	6,871,875	4,571,875	4,571,875
Bentonite tax distribution to eligible counties	15-39-110	SSR	2,377,336	2,377,336	2,377,336
Tribal reimbursements and DOR administration	18-11-112	SSR	4,909,524	5,150,370	5,271,524

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	46,999,289	46,999,289	93,998,578	89.78%	50,196,128	50,196,128	100,392,256	89.56%
Statewide PL Adjustments	4,429,485	4,328,589	8,758,074	8.36%	4,748,860	4,655,430	9,404,290	8.39%
Other PL Adjustments	448,100	667,990	1,116,090	1.07%	448,100	667,990	1,116,090	1.00%
New Proposals	494,538	335,941	830,479	0.79%	673,369	514,802	1,188,171	1.06%
Total Budget	52,371,412	52,331,809	104,703,221		56,066,457	56,034,350	112,100,807	

The above figure shows that the majority of funds added to the base are due to statewide present law adjustments. Of these statewide adjustments, the major contributor is the personal services adjustment, which for the department is due to conversion during FY 2008 to the broadband pay plan. To frame the impacts of the conversion, staff received pay increases to convert to the broadband pay plan equivalent to over four times the pay increases given under the 3.0 percent increase that took effect October 1, 2008, under HB 13 of the 2007 legislature. The department generally provided these increases in two steps at the following times:

- December 2007
- June 2008

Because the increases were provided part in the middle and part at the end of the fiscal year, base expenditures are low in comparison to that needed under full funding. Also, the department experienced a 9.0 percent vacancy rate in FTE-hours for FY 2008. Since the budget requests fully fund all positions for the 2011 biennium, except for the imposed vacancy savings reduction of 4.0 percent, the impacts of vacancies in the base year add a component to the statewide present law adjustment of personal services. As such, the personal services component is a significant contributor to budget growth over the base primarily because of: 1) the phased in conversion to the broadband pay plan during FY 2008; and 2) the impacts of vacancies in FY 2008.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	48.98	48.98	48.98	48.98	48.98	48.98	.00	0.00 %
Personal Services	3,201,839	3,384,705	3,661,165	3,726,453	6,586,544	7,387,618	801,074	12.16 %
Operating Expenses	2,279,318	1,738,046	2,433,161	2,219,399	4,017,364	4,652,560	635,196	15.81 %
Equipment & Intangible Assets	0	0	0	0	0	0	0	0.00 %
Local Assistance	0	0	0	0	0	0	0	0.00 %
Total Costs	5,481,157	5,122,751	6,094,326	5,945,852	10,603,908	12,040,178	1,436,270	13.54 %
General Fund	5,310,557	4,896,161	5,893,641	5,745,935	10,206,718	11,639,576	1,432,858	14.04 %
State Special	84,281	81,486	109,108	109,185	165,767	218,293	52,526	31.69 %
Federal Special	600	0	1,000	0	600	1,000	400	66.67 %
Other	85,719	145,104	90,577	90,732	230,823	181,309	(49,514)	(21.45%)
Total Funds	5,481,157	5,122,751	6,094,326	5,945,852	10,603,908	12,040,178	1,436,270	13.54 %

Program Description

The Director's Office supports the agency's director and provides the following functions:

- o General management of the agency, including assisting the director with administrative functions and communications to the public, agencies, and elected officials, and includes the Office of Taxpayer Assistance
- o Legal service support for the Office of Dispute Resolution and the overall legal efforts of the department, includes legal representation before various courts, legislative development and review, filing bankruptcy claims, and developing policy and administrative rules
- o Tax policy, research, and analysis of state revenue legislation and legislative proposals affecting the department, preparation of fiscal notes that affect revenue, and analysis of department, economic, and compliance data
- o Human resources, payroll, benefits, education, organizational development, and training of the department

Program Highlights

Director's Office	
Major Program Highlights	
<ul style="list-style-type: none"> ◆ The proposed budget for the Director's Office would increase by \$1.4 million or 13.5 percent from the 2009 biennium to the 2011 biennium ◆ Statewide present law adjustments account for the bulk of the budget increases <ul style="list-style-type: none"> • Personal services in the statewide present law adjustment are the primary cause for the increase due to a phased conversion to the broadband pay plan in FY 2008 ◆ Funding for overtime and other costs associated with 2011 Legislature support activities would add nearly \$67,600 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Objectives for program goals could be strengthened 	

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

During the 2009 biennium, the Legislative Finance Committee monitored the goal to prevent tax increases, aid taxpayers in following the law, ensure fiscal responsibility, protect Montana businesses from unfair competition, and improve tax fairness and integrity in Montana's current tax laws. The goal is associated with operations for the entire department but primarily involves compliance functions of this division and the Business and Income Taxes Division. During the interim when this goal was monitored, baseline data was being gathered and no performance measures we developed to determine if or how the efforts of the department were achieving the intended outcome.

This does not allow the legislature to make a determination if work is being done in a timely manner and progress is being made. The legislature may wish to review the progress of the department's tax compliance efforts.

2011 Biennium Major Goals

The agency is required by law to submit program goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goal and objectives for the division follow:

- Implement new processes, policies, procedures, and laws to maintain the effective and orderly administration of the department's legal services office
 - Upgrade the case management and tracking system in the Office of Legal Affairs to facilitate caseload management, focus accountability, and increase the reliability of the legal office calendaring system
 - Develop legislation or procedures to reduce the disruption to local governments caused by large (centrally-assessed) property tax protests, and streamline or otherwise reform and rationalize the centrally-assessed property litigation process
 - Following the close of each legislative session, review all agency rules and internal policies and procedures and modify as necessary to ensure they reflect new legislation

LFD ISSUE

Could Be Strengthened with Time-bound Metrics and Specified Outcomes

The objectives could be strengthened by including specific outcomes along with measures and their timing for assessing if the outcomes were being attained. For example, the objective to develop legislation or procedures to reduce the disruption to local governments caused by centrally-assessed property tax protests doesn't specify what lower level of disruption that if attained would indicate success for the efforts undertaken with division funding, nor does the objective specify what would be measured and when the activities would be completed or tested during implementation to verify that the funding was being used in a way to attain success. Without these objective components, the legislature will be left without key information needed to formulate an appropriations policy for the division that can be monitored at a later date to determine its effectiveness in funding division operations.

The objectives could be strengthened by stating what specific outcomes are intended with the funding provided, when the activities would be evaluated to determine success, and what would be measured to monitor service delivery.

The legislature may wish to discuss with the division how it could strengthen the objectives with more specifics and linkage to the funding request.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Directors Office						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 5,310,557	96.9%	\$ 5,893,641	96.7%	\$ 5,745,935	96.6%
01100 General Fund	5,310,557	96.9%	5,893,641	96.7%	5,745,935	96.6%
02000 Total State Special Funds	84,281	1.5%	109,108	1.8%	109,185	1.8%
02790 6901-Statewide Tobacco Sttlmnt	84,281	1.5%	109,108	1.8%	109,185	1.8%
03000 Total Federal Special Funds	600	0.0%	1,000	0.0%	-	-
03928 Royalty Audit - Nrct	600	0.0%	1,000	0.0%	-	-
06000 Total Proprietary Funds	85,719	1.6%	90,577	1.5%	90,732	1.5%
06005 Liquor Division	85,719	1.6%	90,577	1.5%	90,732	1.5%
Grand Total	\$ 5,481,157	100.0%	\$ 6,094,326	100.0%	\$ 5,945,852	100.0%

Funding for the program comes primarily from the general fund. State special revenue funds the office support for one-stop and new hire administration activities. Federal special revenue funds office support of mineral royalty audits. The proprietary funding is from a direct appropriation of Liquor Control Division proprietary fund and is for the Liquor Control Division share of Director's Office support costs. The allocation is based on FTE counts. Liquor Control Division proprietary funds are an indirect use of general fund since net liquor revenues are deposited in the general fund after operating costs are deducted.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	5,310,557	5,310,557	10,621,114	91.25 %	5,481,157	5,481,157	10,962,314	91.05 %
Statewide PL Adjustments	575,559	372,469	948,028	8.14 %	605,612	401,758	1,007,370	8.37 %
Other PL Adjustments	6,000	61,587	67,587	0.58 %	6,000	61,587	67,587	0.56 %
New Proposals	1,525	1,322	2,847	0.02 %	1,557	1,350	2,907	0.02 %
Total Budget	5,893,641	5,745,935	11,639,576		6,094,326	5,945,852	12,040,178	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2010-----					-----Fiscal 2011-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				611,874					621,981
Vacancy Savings				(152,548)					(152,954)
Inflation/Deflation				9,127					14,365
Fixed Costs				137,159					(81,634)
Total Statewide Present Law Adjustments				\$605,612 *					\$401,758 *
DP 10001 - Overtime, Software Licenses, and Web Services									
0.00	6,000	0	0	6,000	0.00	61,587	0	0	61,587
Total Other Present Law Adjustments									
0.00	\$6,000	\$0	\$0	\$6,000	0.00	\$61,587	\$0	\$0	\$61,587
Grand Total All Present Law Adjustments				\$611,612					\$463,345

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

**LFD
COMMENT**

As with the rest of the department, the division converted to the broadband pay plan during FY 2008. In the process, the division provided market adjustment pay raises that averaged roughly 7.0 percent in two batches, one nearly halfway through the base year and the other at the end of the base year.

The timing of the market adjustments is why statewide present law adjustments for personal services account for most of the division budget growth from the 2009 biennium to the 2011 biennium.

o Market Rate

- The Director's Office follows the agency policy for market percent with no exceptions identified
- The statewide personal services adjustment represents salaries for the office at 95.6 percent of market relative to the adopted market survey, which corresponds to 94 percent of the market determined in the 2008 executive branch market survey

o Vacancy

- No specific job classifications are showing high turnover rates or difficulties with recruitment and retention

o Legislatively applied vacancy savings

- The office used normal staff turnover to manage to the 4.0 percent legislatively applied vacancy savings rate

**LFD
COMMENT**

In terms of FTE-hours, the division experienced a 9.8 percent vacancy rate. Eliminating the impact of the legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 2.5 percent]

o Pay Changes

- The conversion to the broadband pay plan was funded through a combination of holding vacant positions open and using the 0.6 percent discretionary portion of HB 13. Funds were not transferred from other budgeted expenditure categories

**LFD
COMMENT**

Market adjustments to align division staff salaries to the agency market policy of between 80 and 95 percent of market resulted in average hourly pay raises of nearly 2.3 times the amount of the 3.0 percent HB 13 salary adjustments.

o Retirements

- The office anticipates one employee would be eligible for full retirement in the 2011 biennium and this retirement would result in about \$38,000 in unfunded compensated absence liability

DP 10001 - Overtime, Software Licenses, and Web Services - An increase of \$67,587 general fund is requested for Tax Policy and Research Office overtime to prepare fiscal notes for the 2011 Legislature. In addition to overtime, an increase is requested in operating expenses for software license agreements and website services.

New Proposals

New Proposals										
-----Fiscal 2010-----						-----Fiscal 2011-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation										
01	0.00	1,525	32	0	1,557	0.00	1,322	28	0	1,350
Total	0.00	\$1,525	\$32	\$0	\$1,557 *	0.00	\$1,322	\$28	\$0	\$1,350 *

DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

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Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	87.25	87.25	87.25	87.25	87.25	87.25	.00	0.00 %
Personal Services	3,622,302	4,318,766	4,428,392	4,439,274	7,941,068	8,867,666	926,598	11.67 %
Operating Expenses	8,325,544	7,795,420	8,746,597	8,762,077	16,120,964	17,508,674	1,387,710	8.61 %
Equipment & Intangible Assets	181,250	37,702	181,250	181,250	218,952	362,500	143,548	65.56 %
Total Costs	12,129,096	12,151,888	13,356,239	13,382,601	24,280,984	26,738,840	2,457,856	10.12 %
General Fund	11,897,699	11,713,958	13,147,346	13,173,573	23,611,657	26,320,919	2,709,262	11.47 %
State Special	161,522	231,295	132,399	132,399	392,817	264,798	(128,019)	(32.59%)
Federal Special	0	132,000	0	0	132,000	0	(132,000)	(100.00%)
Other	69,875	74,635	76,494	76,629	144,510	153,123	8,613	5.96 %
Total Funds	12,129,096	12,151,888	13,356,239	13,382,601	24,280,984	26,738,840	2,457,856	10.12 %

Program Description

The Information Technology and Processing Division provides technology support for the department and processes all tax returns, payments and other documents received, whether in paper or electronic form. Technology support includes both application development and support services, such as network services and data, desktop, and information security. The division operates a help desk and a mailroom, processes tax returns and payments, maintains taxpayer accounts, and manages department records.

Program Highlights

Information Technology and Processing Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The proposed budget for the division would increase by \$2.5 million or 10.1 percent from the 2009 biennium to the 2011 biennium ◆ Statewide present law adjustments account for the bulk of the budget increases <ul style="list-style-type: none"> • Personal services in the statewide present law adjustment are the primary cause for the increase due to: 1) a phased conversion to the broadband pay plan in FY 2008; and 2) vacancies in FY 2008 ◆ A request to increase general fund by \$296,000 would fund: <ul style="list-style-type: none"> • Development and continued operation of a segregated portion of the new state data center to house confidential tax information • Replacement of agency owned vehicles with State Motor Pool leased vehicles • Increases in annual maintenance agreements for computer systems ◆ Increased use of video services would add \$93,000 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Objectives for program goals could be strengthened 	

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

During the 2009 biennium, the Legislative Finance Committee monitored the goal to expand convenient and cost-saving electronic filing services for Montana taxpayers. The funding for the initiative was approved in a decision package that provided \$2.7 million of on-going funding and \$2.0 million of one-time funding to provide electronic tax filing services to Montana citizens and businesses. In its monitoring the committee heard that the following taxes had been made available via electronic means to Montana citizens and businesses:

- Free Internet filing of mineral royalty withholding annual reconciliation forms
- Free Internet filing of employer withholding annual reconciliation forms
- Free Internet filing of individual income tax Form 2M returns and Elderly Homeowner/Renter Credit (2EC) returns
- Free Internet filing of wine tax returns
- Provided for electronic filing of corporation license tax returns under the fed/state modernized e-file program

Other taxes and tax filing forms were yet to be made available under the project. As such, the legislature may wish to monitor the efforts made since the Legislative Finance Committee last monitored the project and during the 2011 biennium to determine if the efforts made were resulting in expanded convenience and cost-savings for Montana taxpayers. The legislature may wish to discuss with the division measures that could be used in determining the outcome from the project in terms of taxpayer convenience and cost savings.

2011 Biennium Major Goals

The agency is required by law to submit program goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goal and objectives for the division follow:

- Improve the operating environment of the department by continuously updating and implementing innovative and effective information technology solutions and processes designed to increase operating efficiencies and reduce energy consumption
 - Continuously monitor, augment, and improve the capabilities and performance of the department's major data processing systems – the IRIS/Gentax and PVAS/Orion systems – through enhancements that expand information gathering and reporting, and cross-matching and other electronic tax compliance tools
 - Improve workflow and increase operating efficiencies within the department, and optimize data security and confidentiality of taxpayer information, by incorporating the use of imaging technology within the department's major computer systems
 - Provide taxpayers with the ability to file tax returns and other information for all taxes administered by the department electronically, except in those instances where the department's business case concludes that electronic filing is not cost effective, feasible, and appropriate
 - Improve staff productivity, reduce staff travel time, and reduce energy consumption by developing and implementing a wide variety of video conferencing, intelligent whiteboard, and other effective and efficient remote communications technologies, including on-line collaboration tools

**LFD
ISSUE****Objectives Could Be Strengthened with Time-bound Metrics and Specified Outcomes**

The objectives could be strengthened by including specific outcomes along with measures and their timing for assessing if the outcomes were being attained. For example, the objective to continuously monitor, augment, and improve the capabilities and performance of the department's major data processing systems appears to be open ended and doesn't reflect the reality of budget limitations. Providing specifics on what changes from current levels of information gathered, when the targeted improvements would be made, and how and when the department would evaluate if the enhancements were increasing productivity to the levels anticipated within budget constraints would strengthen the objective.

The legislature may wish to discuss with the division how it could strengthen the objectives with more specifics and linkage to the funding request.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table							
Information Technology & Processing							
Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	\$ 11,897,699	98.1%	\$ 13,147,346	98.4%	\$ 13,173,573	98.4%
	01100 General Fund	11,897,699	98.1%	13,147,346	98.4%	13,173,573	98.4%
02000	Total State Special Funds	161,522	1.3%	132,399	1.0%	132,399	1.0%
	02088 One-Stop And New Hire Admin.	132,400	1.1%	132,399	1.0%	132,399	1.0%
	02110 Accommodation Tax Admin	29,122	0.2%	-	-	-	-
06000	Total Proprietary Funds	69,875	0.6%	76,494	0.6%	76,629	0.6%
	06005 Liquor Division	69,875	0.6%	76,494	0.6%	76,629	0.6%
Grand	Total	\$ 12,129,096	100.0%	\$ 13,356,239	100.0%	\$ 13,382,601	100.0%

The Information Technology and Processing Division is primarily funded with general fund. State special revenue funds the division's support for coordination of one-stop business licensing activities, in which a business is able to obtain or renew most, if not all, of the licenses, fees and permits required by state government from one centralized location. The proprietary funding is from a direct appropriation of Liquor Control Division proprietary fund and is for the Liquor Control Division share of division support costs. The allocation is based on FTE counts. Liquor Control Division proprietary funds are an indirect use of general fund since net liquor revenues are deposited in the general fund after operating costs are deducted.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	11,897,699	11,897,699	23,795,398	90.40 %	12,129,096	12,129,096	24,258,192	90.72 %
Statewide PL Adjustments	1,100,364	1,123,664	2,224,028	8.45 %	1,077,860	1,101,295	2,179,155	8.15 %
Other PL Adjustments	146,510	149,806	296,316	1.13 %	146,510	149,806	296,316	1.11 %
New Proposals	2,773	2,404	5,177	0.02 %	2,773	2,404	5,177	0.02 %
Total Budget	13,147,346	13,173,573	26,320,919		13,356,239	13,382,601	26,738,840	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----						-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					990,603					1,001,944
Vacancy Savings					(184,513)					(184,972)
Inflation/Deflation					16,111					16,281
Fixed Costs					255,659					268,042
Total Statewide Present Law Adjustments					\$1,077,860 *	\$1,101,295 *				
DP 20001 - Present Law Base Adjustment - Info Tech & Proc										
	0.00	146,510	0	0	146,510	0.00	149,806	0	0	149,806
Total Other Present Law Adjustments										
	0.00	\$146,510	\$0	\$0	\$146,510	0.00	\$149,806	\$0	\$0	\$149,806
Grand Total All Present Law Adjustments					\$1,224,370	\$1,251,101				

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

LFD COMMENT	<p>The following indicates that the division is experiencing difficulties recruiting and retaining computer programmers and network analysts and these difficulties were key factors for why the division experienced double digit vacancy rates in FTE-hours.</p> <p>As with the rest of the department, the division converted to the broadband pay plan during FY 2008. In the process, the division provided market adjustment pay raises that averaged roughly 6.4 percent in two batches, one nearly half way through the base year and the other at the end of the base year.</p> <p>The impacts of high vacancy rates and the timing of the market adjustments are key factors for why statewide present law adjustments for personal services account for much of division budget growth from the 2009 biennium to the 2011 biennium.</p>
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o Market Rate

- The Information Technology and Processing Division follows the agency policy for market percent with the only exception being for systems and network analysts for which the entry market ratio was raised to 85 percent to address retention issues
- The statewide personal services adjustment represents salaries for the office at 93.9 percent of market relative to the adopted market survey, which corresponds to 95 percent of the market determined in the 2008 executive branch market survey

o Vacancy

- The division continues to have difficulty recruiting and retaining systems and network analysts and high vacancy rates in these job classifications was a factor for the division experiencing double digit vacancy rates in FTE-hours
- The division faces problems recruiting and retaining computer programmers and for the short-term is addressing programmatic impacts through increased overtime pay for existing employees and augmenting staff with contracted services

o **Legislatively applied vacancy savings**

- The division used normal staff turnover to manage to the 4.0 percent legislatively applied vacancy savings rate

**LFD
COMMENT**

In terms of FTE-hours, the division experienced a 14.0 percent vacancy rate. Eliminating the impact of the legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 25.0 percent

o **Pay Changes**

- The conversion to the broadband pay plan was funded through a combination of vacancy savings and the 0.6 percent discretionary portion of HB 13. Funds were not transferred from other budgeted expenditure categories.

**LFD
COMMENT**

Market adjustments to align division staff salaries to the agency market policy of between 80 and 95 percent of market resulted in average hourly pay raises of nearly two times the amount of the 3.0 percent HB 13 salary adjustments.

o **Retirements**

- The division anticipates four employees would be eligible for full retirement in the 2011 biennium and these retirements would result in about \$35,000 in unfunded compensated absence liability

DP 20001 - Present Law Base Adjustment - Info Tech & Proc - An increase of \$296,316 general fund is requested to cover increases for post office box rental, annual maintenance agreements, and payment processing fees. Funding would also be used to set up a segregated environment in the state data center to improve security of the department's federal tax information and other state tax data per Internal Revenue Service guidelines and replace two agency owned vehicles with vehicles leased from the State Motor Pool.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				FTE	Fiscal 2011			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation										
02	0.00	2,773	0	0	2,773	0.00	2,404	0	0	2,404
Total	0.00	\$2,773	\$0	\$0	\$2,773 *	0.00	\$2,404	\$0	\$0	\$2,404 *

DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	29.00	29.00	29.00	29.00	29.00	29.00	.00	0.00 %
Personal Services	1,377,931	1,451,743	1,670,784	1,677,037	2,829,674	3,347,821	518,147	18.31 %
Operating Expenses	569,163	533,569	566,849	568,213	1,102,732	1,135,062	32,330	2.93 %
Equipment & Intangible Assets	30,125	54,723	30,125	30,125	84,848	60,250	(24,598)	(28.99%)
Benefits & Claims	0	0	0	0	0	0	0	0.00 %
Transfers	0	0	0	0	0	0	0	0.00 %
Total Costs	1,977,219	2,040,035	2,267,758	2,275,375	4,017,254	4,543,133	525,879	13.09 %
Other	1,977,219	2,040,035	2,267,758	2,275,375	4,017,254	4,543,133	525,879	13.09 %
Total Funds	1,977,219	2,040,035	2,267,758	2,275,375	4,017,254	4,543,133	525,879	13.09 %

Program Description

The Liquor Control Division administers the alcoholic beverage code. The division oversees warehousing, inventory, and shipping of distilled spirits and fortified wines and the state agency liquor stores. The division also oversees licensing of on-premise and off-premise businesses, manufacturers, wholesalers, warehouses, importers, and liquor representatives.

Program Highlights

Liquor Control Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The proposed budget for the Liquor Control Division would increase by \$526,000 or 13.1 percent from the 2009 biennium to the 2011 biennium ◆ Statewide present law adjustments account for nearly all of the budget increases <ul style="list-style-type: none"> • Personal services in the statewide present law adjustment are the primary cause for the increase due to a phased conversion to the broadband pay plan in FY 2008 ◆ Language appropriations totaling \$270.2 million in liquor funds are requested to fund: <ul style="list-style-type: none"> • Inventory purchase if demand rises • Overtime or temporary staff to address demand increases • Retirement costs 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Three language appropriations to fund liquor distribution related functions could be regular HB 2 appropriations ◆ Objectives for program goals could be strengthened 	

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

No goals specific to this division were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit program goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goal and objectives for the division follow:

- Accomplish the statutory responsibilities in the administration of the Alcoholic Beverage Code with an emphasis on excellence in customer service, a high regard for public safety, and a focus on energy conservation
 - Provide educational outreach to Montana's liquor store owners, liquor licensees, and special events license holders to encourage and promote responsible sales of alcoholic beverages in the state
 - Continue to work with other state agencies and public interest groups to cooperatively develop educational efforts to encourage responsible sales and service of alcoholic beverages, and promote the prevention of underage drinking and high-risk (binge) drinking
 - Develop and maintain quality-working relationships through proactive communication with the general public; Montana's schools; other state agencies; public interest groups (such as MADD, Healthy Mothers/Healthy Babies, Safe Kids/Safe Communities) and stakeholders (such as the Montana Tavern Association, and Montana Beer and Wine Distributors).
 - Provide for, and continuously improve upon, an efficient and effective system of alcoholic beverages licensing to ensure the highest level of service to Montana licensees
 - Provide exemplary service to agency liquor stores, licensees and citizens by maintaining sufficient inventory to meet a monthly service level of at least 97 percent (MCA 16-2-101(12)), and maintain at least a 99 percent accuracy rate for liquor cases ordered for the biennium
 - Renovate and retrofit the state's liquor warehouse in a cost effective manner to incorporate renewable energy sources and reduce future energy consumption commensurate with targets included in the Governor's 20 X 10 energy efficiency program

LFD ISSUE

Objectives Could Be Strengthened with Time-bound Metrics and Specified Outcomes

The objectives could be strengthened by including specific outcomes along with measures and their timing for assessing if the outcomes were being attained. For example, the objective to provide for a system of alcoholic beverages licensing doesn't specify what level of service to licensees is targeted with the funding requested in the division budget request. What level of service would reflect success for the efforts made given the limitation of funding? Would the legislature find that the division had successfully provided the services it intended if all liquor license applications were processed within one week of receipt, one month of receipt, or specifically how long after receipt given the funding request?

The objectives could be strengthened by stating what specific outcomes are intended with the funding provided, when the activities would be evaluated to determine success, and what would be measured to monitor service delivery.

The legislature may wish to discuss with the division how it could strengthen the objectives with more specifics and linkage to the funding request.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Liquor Control Division						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
06000 Total Proprietary Funds	\$ 1,977,219	100.0%	\$ 2,267,758	100.0%	\$ 2,275,375	100.0%
06005 Liquor Division	1,977,219	100.0%	2,267,758	100.0%	2,275,375	100.0%
Grand Total	\$ 1,977,219	100.0%	\$ 2,267,758	100.0%	\$ 2,275,375	100.0%

The division is funded with a direct appropriation of Liquor Control Division proprietary funds. Net revenues from liquor sales are transferred to the general fund after operating costs are deducted from gross revenues.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00 %	1,977,219	1,977,219	3,954,438	87.04 %
Statewide PL Adjustments	0	0	0	0.00 %	289,617	297,357	586,974	12.92 %
Other PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	922	799	1,721	0.04 %
Total Budget	0	0	0		2,267,758	2,275,375	4,543,133	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----						-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					362,470					368,983
Vacancy Savings					(69,617)					(69,877)
Inflation/Deflation					5,907					6,517
Fixed Costs					(9,143)					(8,266)
Total Statewide Present Law Adjustments					\$289,617 *	\$297,357 *				
Grand Total All Present Law Adjustments					\$289,617	\$297,357				

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

LFD COMMENT

As with the rest of the department, the division converted to the broadband pay plan during FY 2008. In the process, the division provided market adjustment pay raises that averaged roughly 13.4 percent in two batches, one nearly halfway through the base year and the other at the end of the base year.

**LFD
COMMENT (CONT.)**

The timing of the market adjustments is why statewide present law adjustments for personal services account for nearly all of the division budget growth from the 2009 biennium to the 2011 biennium.]

- o **Market Rate**

- The Liquor Control Division follows the agency policy for market percent with no exceptions identified
- The statewide personal services adjustment represents salaries for the office at 89.7 percent of market relative to the adopted market survey, which corresponds to 87.0 percent of the market determined in the 2008 executive branch market survey

- o **Vacancy**

- No specific job classifications are showing high turnover rates or difficulties with recruitment and retention

- o **Legislatively applied vacancy savings**

- The division used normal staff turnover to manage to the 4.0 percent legislatively applied vacancy savings rate

**LFD
COMMENT**

In terms of FTE-hours, the division experienced a 6.9 percent vacancy rate. Eliminating the impact of the legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 2.4 percent.]

- o **Pay Changes**

- The conversion to the broadband pay plan was funded through a combination of holding vacant positions open and using the 0.6 percent discretionary portion of HB 13. Funds were not transferred from other budgeted expenditure categories. Market adjustments were given to align division staff pay to the agency market policy of between 80 and 95 percent of market depending upon time in the band range

**LFD
COMMENT**

Market adjustments to align division staff salaries to the agency market policy of between 80 and 95 percent of market resulted in average hourly pay raises of 4.6 times the amount of the 3.0 percent HB 13 salary adjustments.

- o **Retirements**

- The division anticipates no retirements in the 2011 biennium

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				FTE	Fiscal 2011			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation										
03	0.00	0	0	0	922 *	0.00	0	0	0	799 *
Total	0.00	\$0	\$0	\$0	\$922 *	0.00	\$0	\$0	\$0	\$799 *

DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon

the average number of payroll warrants issued per pay period. Because the program was approved as a one-time-only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Language and Statutory Authority

The executive recommends the following language for the division:

“Liquor control division proprietary funds necessary to maintain adequate inventories, pay freight charges, and transfer profits and taxes to appropriate accounts are appropriated from the liquor enterprise fund (06005) to the department in the amounts not to exceed \$129,000,000 in FY 2010 and \$141,000,000 in FY 2011.

In the event that the department is unable to meet statutory service levels because of the increase in demand for liquor products, the department may hire additional temporary employees or pay overtime, whichever is determined to be the most cost-effective, to maintain required service levels to agency liquor stores. In fiscal year 2010 and fiscal year 2011, the department is appropriated not more than \$50,000 each year for additional cost from the liquor enterprise fund (06005) to meet the service level requirements.

In the liquor control division, upon a termination that requires a payout of accrued leave balances, liquor control division proprietary funds are appropriated from the liquor enterprise fund (06005) to the department in the amount equal to the payout of the accrued leave balances, not to exceed \$40,000 for each of the fiscal years 2010 and 2011.”

LFD ISSUE

Language Appropriations or Regular HB 2 Appropriations

In circumstances similar to the Liquor Division, language appropriations allow revenues and/or costs that cannot be predicted, but which must be spent, to be adequately addressed in the appropriation. However, they do not appear in the base and can as a result be overlooked in budgeting. The Liquor Division has language appropriations to:

- o Maintain inventories and transfer profits and taxes
- o Pay overtime and hire temporary staff to meet demand
- o Pay for termination payouts

However, a review of historical spending patterns for these functions reveals that these costs are relatively predictable.

Cost to Maintain Inventories and Transfer Profits and Taxes

Montana law states that the department shall maintain sufficient inventory in the state warehouse in order to meet a monthly service level of at least 97 percent. The language appropriation to purchase inventories, pay freight charges, and transfer profits and taxes is intended to provide the department the funding flexibility to meet this statutory service level. Expenditures under this language appropriation have historically been consistent and show a predictable growth over time.

Pay Overtime and Hire Temporary Staff to Meet Demand

Expenditures have been made under this appropriation only once the last three years for total expenditures of just over \$13,000. The department budgets in HB 2 for all other personal services and operating costs that fund the division's liquor operations, yet requests \$50,000 per year to fund these seldom used costs.

Pay for Termination Payouts

When responding to questions about anticipated terminations in the division, the executive stated that no division employees would be eligible for full retirement during the 2011 biennium. However, a review of the division staffing identified four employees who would have more than 20 years of service during the 2011 biennium, but who would not reach full retirement eligibility with 30 years of service. Retirement of these employees is less certain. Expenditures

**LFD
ISSUE
(Cont.)**

under prior language appropriations for this purpose have only been made in two of the last three years for a total of just over \$6,000.

Regular HB 2 Appropriations

Functions for which the requested language appropriations are sought have historically shown predictable expenditure patterns or have had little activity. The legislature may want to appropriate funding for these purposes as regular HB 2 appropriations instead of as language appropriations. In appropriating the funding for these purposes, the legislature may want to consider past expenditure patterns and set the level of the appropriations at levels supported by such expenditures.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	28.00	28.00	28.00	28.00	28.00	28.00	.00	0.00 %
Personal Services	1,304,724	1,403,398	1,517,149	1,521,340	2,708,122	3,038,489	330,367	12.20 %
Operating Expenses	708,819	739,254	724,706	723,421	1,448,073	1,448,127	54	0.00 %
Equipment & Intangible Assets	0	80,716	0	0	80,716	0	(80,716)	(100.00%)
Total Costs	2,013,543	2,223,368	2,241,855	2,244,761	4,236,911	4,486,616	249,705	5.89 %
General Fund	1,859,004	2,062,555	2,040,159	2,043,023	3,921,559	4,083,182	161,623	4.12 %
State Special	108,300	112,005	150,235	150,307	220,305	300,542	80,237	36.42 %
Other	46,239	48,808	51,461	51,431	95,047	102,892	7,845	8.25 %
Total Funds	2,013,543	2,223,368	2,241,855	2,244,761	4,236,911	4,486,616	249,705	5.89 %

Program Description

The Citizens Services and Resource Management Division provides agency accounting, purchasing, and statewide facilities safety and security functions. The division also provides customer service and support services to the other divisions of the department including operations of the call center, forms design, one-stop business licensing coordination, and abandoned property distribution.

Program Highlights

Citizen Services and Resource Management Division	
Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The proposed budget for the Citizens Services and Resource Management Division would increase by \$249,800 or 5.9 percent from the 2009 biennium to the 2011 biennium ◆ Statewide present law adjustments account for nearly all of the budget increases <ul style="list-style-type: none"> • Personal services in the statewide present law adjustment are the primary cause for the increase due to a phased conversion to the broadband pay plan in FY 2008 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Objectives for program goals could be strengthened 	

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

No goals specific to this division were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit program goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goal and objectives for the division follow:

- o Proactively manage the department's human resources programs to ensure a stable base of high-quality, highly-skilled, and knowledgeable department staff across future biennia
 - Continue to provide effective outreach, recruitment, and fair hiring practices to ensure a viable complement of future department staff that reflects the diversity of Montana's population and workforce
 - Develop, encourage, and utilize a department-wide internship program to introduce candidates to the work of the department, and provide a base from which future employees may be hired
 - Monitor and proactively address the need for succession planning, to include development of a department-wide knowledge transfer process, to ensure the continued viability and effectiveness of agency operations in coming years
 - Purchase, or develop in-house, an electronic workforce management (performance appraisal) system that monitors the workflow of the agency, and provides feedback to employees and management, thereby fostering a more effective and efficient utilization of the department's human resources
 - Increase staff productivity and knowledge, and reduce travel costs and energy consumption and training curriculum

LFD ISSUE

Objectives Could Be Strengthened with Time-bound Metrics and Specified Outcomes

The objectives could be strengthened by including specific outcomes along with measures and their timing for assessing if the outcomes were being attained. For example, the objective to increase staff productivity and knowledge, and reduce travel costs and energy consumption would provide more meaning to the legislature if it stated the targeted levels for productivity rise, travel cost reduction, and energy consumption reduction. Also establishing the targets within budgetary constraints and stating when and what would be measured during the biennium to monitor progress toward the objectives would allow the division to gauge if its efforts were proving fruitful toward the intended outcome.

The legislature may wish to discuss with the division how it could strengthen the objectives with more specifics and linkage to the funding request.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Citizen Services & Resource Mgmt						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 1,859,004	92.3%	\$ 2,040,159	91.0%	\$ 2,043,023	91.0%
01100 General Fund	1,859,004	92.3%	2,040,159	91.0%	2,043,023	91.0%
02000 Total State Special Funds	108,300	5.4%	150,235	6.7%	150,307	6.7%
02025 Unclaimed Property	61,500	3.1%	116,235	5.2%	116,307	5.2%
02088 One-Stop And New Hire Admin.	46,800	2.3%	34,000	1.5%	34,000	1.5%
06000 Total Proprietary Funds	46,239	2.3%	51,461	2.3%	51,431	2.3%
06005 Liquor Division	46,239	2.3%	51,461	2.3%	51,431	2.3%
Grand Total	\$ 2,013,543	100.0%	\$ 2,241,855	100.0%	\$ 2,244,761	100.0%

The Citizens Services and Resource Management Division is funded primarily by the general fund, with a small amount of state special revenue and proprietary funds. The proprietary funding is from a direct appropriation of Liquor Control Division proprietary fund and is for the Liquor Division share of Resource Management Program support costs. The allocation is based on FTE counts. Liquor Control Division proprietary funds are an indirect use of general fund since

net liquor revenues are deposited in the general fund after operating costs are deducted. The state special revenue funding comes from unclaimed property proceeds and from one-stop and new hire funds for services in support of new hire administration.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	1,859,004	1,859,004	3,718,008	91.06 %	2,013,543	2,013,543	4,027,086	89.76 %
Statewide PL Adjustments	180,265	183,247	363,512	8.90 %	227,422	230,446	457,868	10.21 %
Other PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	890	772	1,662	0.04 %	890	772	1,662	0.04 %
Total Budget	2,040,159	2,043,023	4,083,182		2,241,855	2,244,761	4,486,616	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					275,635					280,005
Vacancy Savings					(63,210)					(63,389)
Inflation/Deflation					252					322
Fixed Costs					14,745					13,508
Total Statewide Present Law Adjustments					\$227,422 *					\$230,446 *
Grand Total All Present Law Adjustments					\$227,422					\$230,446

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

LFD COMMENT

As with the rest of the department, the division converted to the broadband pay plan during FY 2008. In the process, the division provided market adjustment pay raises that averaged roughly 7.3 percent in two batches, one nearly halfway through the base year and the other at the end of the base year.

The timing of the market adjustments is why statewide present law adjustments for personal services account for nearly all of the division budget growth from the 2009 biennium to the 2011 biennium.

o Market Rate

- The Citizens Services and Resource Management Division follows the agency policy for market percent with no exceptions identified
- The statewide personal services adjustment represents salaries for the office at 93.5 percent of market relative to the adopted market survey, which corresponds to 98.0 percent of the market determined in the 2008 executive branch market survey

- o **Vacancy**
 - No specific job classifications are showing high turnover rates or difficulties with recruitment and retention
- o **Legislatively applied vacancy savings**
 - The division used normal staff turnover to manage to the 4.0 percent legislatively applied vacancy savings rate.

**LFD
COMMENT**

In terms of FTE-hours, the division experienced a 6.1 percent vacancy rate. Eliminating the impact of the legislatively imposed 4 percent vacancy savings, the division overspent its personal services authority appropriated by the 2007 Legislature by 4.3 percent

- o **Pay Changes**
 - The conversion to the broadband pay plan was funded through a combination of holding vacant positions open and using the 0.6 percent discretionary portion of HB 13. Funds were not transferred from other budgeted expenditure categories.

**LFD
COMMENT**

Market adjustments to align division staff salaries to the agency market policy of between 80 and 95 percent of market resulted in average hourly pay raises of 2.4 times the amount of the 3.0 percent HB 13 salary adjustments.

- o **Retirements**
 - The division anticipates three employees would be eligible for full retirement in the 2011 biennium and these retirements would result in about \$37,000 in unfunded compensated absence liability

New Proposals

New Proposals										
-----Fiscal 2010-----						-----Fiscal 2011-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation										
05	0.00	890	0	0	890	0.00	772	0	0	772
Total	0.00	\$890	\$0	\$0	\$890 *	0.00	\$772	\$0	\$0	\$772 *

DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	145.95	145.95	160.95	160.95	145.95	160.95	15.00	10.28 %
Personal Services	7,522,645	8,600,620	8,965,246	8,991,261	16,123,265	17,956,507	1,833,242	11.37 %
Operating Expenses	2,179,437	2,862,973	1,939,704	1,940,443	5,042,410	3,880,147	(1,162,263)	(23.05%)
Equipment & Intangible Assets	0	0	0	0	0	0	0	0.00 %
Total Costs	9,702,082	11,463,593	10,904,950	10,931,704	21,165,675	21,836,654	670,979	3.17 %
General Fund	9,103,747	10,763,306	10,153,432	10,179,691	19,867,053	20,333,123	466,070	2.35 %
State Special	404,743	407,406	543,223	543,547	812,149	1,086,770	274,621	33.81 %
Federal Special	193,592	292,881	208,295	208,466	486,473	416,761	(69,712)	(14.33%)
Total Funds	9,702,082	11,463,593	10,904,950	10,931,704	21,165,675	21,836,654	670,979	3.17 %

Program Description

The Business and Income Taxes Division administers and collects 38 Montana taxes and fees including but not limited to corporation license, natural resource, withholding, individual income, lodging facilities, cigarette and tobacco products, contractor's gross receipts, and telecommunications taxes. The division values all industrial and centrally assessed property in the state. The division also operates the Collection Services Program, which is funded with proprietary funds.

Program Highlights

Business and Income Taxes Division	
Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The proposed budget for the Business and Income Taxes Division would increase by \$671,000 or 3.2 percent from the 2009 biennium to the 2011 biennium ◆ Statewide present law adjustments account for most of the budget increases <ul style="list-style-type: none"> • Personal services in the statewide present law adjustment are the primary cause for the increase due to a phased conversion to the broadband pay plan in FY 2008 ◆ A request to add 12.00 FTE to continue tax compliance activities funded in the current biennium without FTE would add staff but funding levels would remain constant for the 2011 biennium (modified FTE are currently performing these functions) ◆ A request to add 3.00 FTE would add \$356,000 to continue the tobacco tax compliance program (modified FTE are currently performing these functions) 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Objectives for program goals could be strengthened 	

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

During the 2009 biennium the Legislative Finance Committee monitored the goal to prevent tax increases, aid taxpayers in following the law, ensure fiscal responsibility, protect Montana businesses from unfair competition, and improve tax fairness and integrity in Montana's current tax laws. The goal is associated with operations for the entire department but primarily involves compliance functions of this division and the Director's Office. During the interim when this goal was monitored, baseline data was being gathered and no performance measures we developed to determine if or how the efforts of the department were achieving the intended outcome.

This does not allow the legislature to make a determination if work is being done in a timely manner and progress is being made. The legislature may wish to review the progress of the department's tax compliance efforts.

2011 Biennium Major Goals

The agency is required by law to submit program goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goal and key objectives for the goal follow:

- o Continue to enhance and augment the department's general compliance initiatives and activities in order to keep taxes fair and low for all Montanans
 - Continue to develop, improve upon, and implement procedures and processes by which the department can measure the extent of noncompliance in those areas where noncompliance is of particular concern, and periodically update and report on the extent to which the rate of noncompliance in these areas has been reduced
 - Continue the on-going biennial process of evaluating forms and instructions, and other taxpayer services, through taxpayer satisfaction surveys and discussions with tax practitioners, in order to make the tax filing process as simple and understandable as possible, with the underlying goal of increasing voluntary compliance with Montana's tax laws

LFD ISSUE

Objectives Could Be Strengthened with Time-bound Metrics and Specified Outcomes

The objectives could be strengthened by including specific outcomes along with measures and their timing for assessing if the outcomes were being attained. For example, for the objective to develop, improve upon, and implement procedures and processes to measure noncompliance, does the division really only intend as a final outcome to be able to report on noncompliance trends or is reporting only an intermediate stage with the true intention to implement processes to reduce noncompliance? With this, would the goal be more meaningful if it said increase the rate of compliance with Montana's tax laws, as is stated in the goal for DP 70002? The goal as stated implies that the only way to make taxes fair and low is to increase compliance resources.

The objectives could also be strengthened by stating what level of noncompliance reduction the budget request would support, what measures would be used to assess if the efforts being taken were achieving the intended reduction, and when the measures would be taken to assess progress toward the objective. Often the only measure provided is at the end of a fiscal year or at the end of a project. Intermediate measures allow the implementing organization and the legislature to gauge if the efforts are working as intended and allow time to redirect efforts if the intended outcome is not as desired.

The legislature may wish to discuss with the division how it could strengthen the objectives so they include more specific outcomes, intermediate milestones, and linkage to the division funding request.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Business And Income Taxes Division						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 9,103,747	93.8%	\$ 10,153,432	93.1%	\$ 10,179,691	93.1%
01100 General Fund	9,103,747	93.8%	10,153,432	93.1%	10,179,691	93.1%
02000 Total State Special Funds	404,743	4.2%	543,223	5.0%	543,547	5.0%
02025 Unclaimed Property	121,301	1.3%	205,957	1.9%	206,070	1.9%
02110 Accommodation Tax Admin	119,986	1.2%	133,709	1.2%	133,752	1.2%
02790 6901-Statewide Tobacco Sttlmnt	163,456	1.7%	203,557	1.9%	203,725	1.9%
03000 Total Federal Special Funds	193,592	2.0%	208,295	1.9%	208,466	1.9%
03928 Royalty Audit - Nrct	193,592	2.0%	208,295	1.9%	208,466	1.9%
Grand Total	\$ 9,702,082	100.0%	\$ 10,904,950	100.0%	\$ 10,931,704	100.0%

The Business and Income Taxes Division is primarily funded with general fund and with some state special revenue, federal special revenue, and proprietary funds. State special revenue comes from the accommodations tax and funds expenses for administering the tax. Federal special revenue comes from reimbursements for performing mineral royalty audits. The finances of the Collections Services Program are not shown in the HB 2 tables because it is funded with proprietary funds. The Collections Services Program is discussed in the Proprietary Rates Section that follows the HB 2 discussion.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
	-----General Fund-----				-----Total Funds-----			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	9,103,747	9,103,747	18,207,494	89.55 %	9,702,082	9,702,082	19,404,164	88.86 %
Statewide PL Adjustments	987,501	1,014,257	2,001,758	9.84 %	962,807	989,901	1,952,708	8.94 %
Other PL Adjustments	57,641	57,748	115,389	0.57 %	57,641	57,748	115,389	0.53 %
New Proposals	4,543	3,939	8,482	0.04 %	182,420	181,973	364,393	1.67 %
Total Budget	10,153,432	10,179,691	20,333,123		10,904,950	10,931,704	21,836,654	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2010-----					-----Fiscal 2011-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				1,124,550					1,151,249
Vacancy Savings				(345,887)					(346,956)
Inflation/Deflation				19,256					25,914
Fixed Costs				164,888					159,694
Total Statewide Present Law Adjustments				\$962,807					\$989,901
DP 70007 - Debt Collection - Child Support Cases									
0.00	57,641	0	0	57,641	0.00	57,748	0	0	57,748
Total Other Present Law Adjustments									
0.00	\$57,641	\$0	\$0	\$57,641	0.00	\$57,748	\$0	\$0	\$57,748
Grand Total All Present Law Adjustments				\$1,020,448					\$1,047,649

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

LFD COMMENT

As with the rest of the department, the division converted to the broadband pay plan during FY 2008. In the process, the division provided market adjustment pay raises that averaged roughly 14.8 percent in two batches, one nearly halfway through the base year and the other at the end of the base year.

The timing of the market adjustments is a key factor for why statewide present law adjustments account for nearly all of the division budget growth from the 2009 biennium to the 2011 biennium.

o Market Rate

- The Business and Income Taxes Division follows the agency policy for market with exceptions for auditors, auditing technicians, and tax examiners for which the entry market ratio was raised to 85 percent to address retention issues
- The statewide personal services adjustment represents salaries for the office at 91.4 percent of market relative to the adopted market survey, which corresponds to 96.0 percent of the market determined in the 2008 executive branch market survey

- o **Vacancy** - No specific job classifications are showing high turnover rates or difficulties with recruitment and retention after providing the above mentioned exceptions for entry market ratio
- o **Legislatively applied vacancy savings** - The division used normal staff turnover to manage to the 4.0 percent legislatively applied vacancy savings rate.

LFD COMMENT

In terms of FTE-hours, the division experienced a 12.2 vacancy rate.

Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 9.3 percent

- o **Pay Changes** - The conversion to the broadband pay plan was funded through a combination of holding vacant positions open and using the 0.6 percent discretionary portion of HB 13. Funds were not transferred from other budgeted expenditure categories.

**LFD
COMMENT**

Market adjustments to align division staff salaries to the agency market policy of between 80 and 95 percent of market resulted in average hourly pay raises of nearly five times the amount of the 3.0 percent HB 13 salary adjustments.

- o **Retirements**
 - The division anticipates four employees would be eligible for full retirement in the 2011 biennium and these retirements would result in \$139,000 in unfunded compensated absence liability

DP 70007 - Debt Collection - Child Support Cases - An increase of \$115,400 general fund is requested to fund costs to collect bad debt associated with child support payments. FY 2008 expenditures were recorded as personal services and supported staff costs that are in the Collection Services Program, a proprietary funded program discussed in the proprietary rates section. The base for these costs was zero based for this general fund support. This request restores the base and corresponding statewide present law adjustments associated with the personal services funding.

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				FTE	Fiscal 2011			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation										
07	0.00	4,543	0	95	4,638	0.00	3,939	0	83	4,022
DP 70002 - Nonresident and Nonfiler Tax Compliance										
07	12.00	0	0	0	0	12.00	0	0	0	0
DP 70003 - Reduce Smoking through Tobacco Tax Compliance										
07	3.00	0	177,782	0	177,782	3.00	0	177,951	0	177,951
Total	15.00	\$4,543	\$177,782	\$95	\$182,420 *	15.00	\$3,939	\$177,951	\$83	\$181,973 *

DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

DP 70002 - Nonresident and Nonfiler Tax Compliance - The executive requests a reallocation from operating expenses to personal services to add 12.00 FTE to address identified compliance issues in areas such as: 1) pass-through entities' partners and shareholders that have not filed or have underreported income; 2) nonresidents selling property in Montana who have not filed or paid the appropriate tax associated with the capital gain from the sale of Montana property; and 3) nonfilers or underreported income that have been identified through the cross-matching of department data with various external data sources. The request would not increase funding levels, but would only move base funding between expenditure categories.

**LFD
COMMENT****Tax Compliance Funding for the 2009 Biennium**

The 2007 Legislature approved increased funding of \$5.9 million to enhance tax compliance activities in Montana. The approved tax compliance decision package included funding for personal services to add 10.00 FTE each year with the remaining funding in operating costs to allow the department to address compliance concerns through other means.

Among other things, the funding was to be used to address several key compliance issues in areas such as pass-through entity audits, natural resource audits, issues related to Montana source income, and issues associated with nonresident taxpayers including land sales and abusive tax shelters. Originally, the executive requested 23.00 FTE for FY 2008 and additional 10.00 FTE for FY 2009. During FY 2008, the department used 12.00 modified FTE and contracted staff to work on the compliance activities funded by the 2007 Legislature. This request would make the 12.00 modified FTE part of the division's base funding.

**LFD
ISSUE****Performance Measurement in 2009 Biennium Interim**

The tax compliance initiative funded in the 2009 biennium was an integral part of an agency goal the Legislative Finance Committee (LFC) monitored during its performance measurement project of the 2009 biennium interim. Through regular status reports to the committee, the agency demonstrated that it was progressing in developing baseline data, but no performance measurement criteria were developed to use in assessing progress for the 2009 biennium funded initiative. Performance criteria provided to the 2007 Legislature for 2009 biennium funding included:

- o Effect of the programs on taxpayers voluntary filing of tax returns
- o Reduction in delinquent accounts
- o Long term compliance by individual taxpayers and specific tax types
- o Impact of the programs based on periodic reviews of tax returns for accuracy

The division now states that the only way to truly establish performance measures for this initiative is to conduct a Montana-specific tax gap study. The 2007 Legislature did not fund a proposal for such a tax gap study and no request is proposed for the 2011 biennium. Instead of measuring compliance levels, the division proposes to measure revenues generated from compliance efforts and report on a measurement of revenue raised per dollar spent on compliance. The division proposes a target ratio of \$8 revenue raised per \$1 spent.

Below, the division missed the point for providing milestones for the initiative when it stated that there are no milestones as the initiative is ongoing. Milestones expected as part of the expanded justification provided below are key points in an initiative when the division would assess key performance criteria to determine if efforts are trending toward a successful initiative and not only at the end of a project to determine if the project was successful. Waiting only until the end of a project leaves decision makers no opportunity to reevaluate resources and funding if efforts are not providing the intended outcomes. For this initiative, quarterly or annual measures may be appropriate.

When evaluating this request, the legislature may want to consider if Montana taxpayers are better off through the efforts of the compliance initiatives expanded in the 2009 biennium. The executive suggests that because these efforts generate more revenue than the initiative costs, the taxpayers are better off through more equitably administered taxes in which some pay when others don't but should pay taxes. As stated earlier, the division states that in FY 2008, each dollar spent on tax compliance associated with this initiative returned \$8 in taxes that may otherwise not have been collected by the state.

The legislature may want to discuss if this measurement or some other measurements could be developed to better enable it to set appropriations policy through this initiative and later assess if the funding resulted in the intended outcome.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The proposal is required so that the department can continue its highly successful efforts to improve compliance with Montana's tax laws. This request is for FTE only; no funding is requested. The FTE are needed to address identified compliance issues in such area as pass-through entities' partners and shareholders that have not filed or have underreported income (primarily non-residents), nonresidents selling property in Montana who have not filed or paid the appropriate tax associated with sale of Montana property, and identifying nonfilers or underreported income that have been identified through the cross-matching of department data with various data sources. In addition, other compliance issues will be addressed as they are found. In the recent past, these efforts have been yielding a significant rate of return for the citizens of Montana who already pay the taxes they owe.

Goal: The goal of the proposal is to increase the rate of compliance with Montana's tax laws.

Performance Criteria: To truly establish performance measures to determine if the department's activities in these areas are improving tax compliance the department would be required to conduct a Montana specific tax gap study. A tax gap study would set the benchmark that would be used to determine if rates of compliance were improving. The department has requested funding in the past to complete a tax gap study. These requests have not been successful. In light of this, the department will be measuring the success of this proposal by using a return on investment measure. The measure that will be used is based on a prospective return of \$8 in general fund revenue received for every dollar spent.

Milestones: Major milestones include:

- o The department will continue to use the 12 FTE to address noncompliance issues well beyond the conclusion of the 2011 biennium. Therefore the proposal will not have a completion date

FTE: The requested FTE are current department employees in modified positions. The existing staff currently conducts research to identify areas of noncompliance, perform discovery work to identify noncompliant taxpayers, conduct audits, and provide taxpayer assistance associated with the compliance issues discussed above. It should also be noted that the requested staff will only be able to address a fraction of the cases that the department has identified.

Obstacles: No obstacles have been identified as staff is already working on this initiative.

Risk: Without the requested FTE, Montana's tax system will continue to be compromised by non-filers and non-payers. If the department does not receive the requested FTE, tax compliance efforts will be reduced, costing the honest citizens of Montana who pay their taxes a loss of at least \$8 for every \$1 that would have been expended.

DP 70003 - Reduce Smoking through Tobacco Tax Compliance - An increase of nearly \$356,000 state special revenue for the biennium is requested to fund the addition of 3.00 FTE to continue the tobacco tax compliance program.

LFD COMMENT

Base Activities

During the current biennium, the department has used 3.00 modified FTE to audit wholesaler, sub jobbers, and retailers to verify they are in compliance with the tobacco master settlement agreement (TMSA). Funding was approved by the 2007 Legislature in an unspecified amendment to HB 2 that provided \$5.9 million funding for tax compliance but did not authorize FTE for this purpose. According to the department, the modified FTE have been identifying Internet cigarette sales and interstate smuggling activities, as well as conducting audits of licensed wholesalers for cigarette distributions in Montana.

**LFD
ISSUE****Performance Measurement in 2009 biennium Interim**

The compliance activities the modified FTE performed during the 2009 biennium are part of the compliance functions monitored by the LFC during the interim and discussed in DP 70002. When considering this request, the legislature may want to consider similar outcome measurements as those used in evaluating DP 70002.

Proprietary Rates**Proprietary Program Description**

Montana law authorizes the Department of Revenue to assist other agencies in the collection of delinquent accounts. The department retains a percentage of these collections for the costs of assistance in conjunction with 17-4-103 (3)(a), MCA. The department established the Collections Services Program to administer its statutory responsibilities under Title 17, chapter 4, MCA. This program is the only Internal Service Fund program in the department. Currently there are 3.50 FTE allocated to this program. This program supports the centralized debt collection function for the State of Montana which was previously administered by the Department of Administration and State Auditor's Office.

The 2005 Montana Legislature directed the department to cease collecting the delinquent account collection fee for debt codes 43 (collection of overpaid child support payments made to custodial parents) or 44 (collection of delinquent child support payments from noncustodial parents). Instead, the legislature provided general funding to augment these proprietary funds.

Collection Services Program					
Budget Item	FY 2010		FY 2010 Total	FY 2011	
	Actual	Base Adjustments		Adjustments	Total
FTE	3.50	0.00	3.50	0.00	3.50
61000 Personal Services	\$68,807	\$75,299	\$144,106	\$75,566	\$144,373
62000 Operating Expenses	<u>19,794</u>	<u>3,696</u>	<u>23,490</u>	<u>3,687</u>	<u>23,481</u>
Total Costs	\$88,601	\$78,995	\$167,596	\$79,253	\$167,854

Program Description

The Collection Services Program collects, on behalf of state agencies, debt associated with delinquent accounts. The program serves all state agencies and is funded through a service charge for collecting on delinquent accounts.

Funding

The program charges a commission for collection services excluding the collection of overpaid child support payments made to custodial parents and collection of delinquent child support payments from noncustodial parents. The legislature has provided an appropriation of general fund to fund these costs.

Program Narrative

Revenues - The program revenues are generated from a fixed percentage collection commission based on the amount of bad debt funds the program is able to recover. The exception is that general fund pays the collection charge for child support payment collections.

Expenditures - About 86 percent of the expenditures of the program are for personnel costs to support 3.50 FTE of the program. The remaining costs are related to office space rent, communications and data systems charges, and incidental office supplies. Personal services costs appear to double on the program budget table, but only increase by about 13 percent when the general fund that supports the collection costs associated with child support payments is considered for FY 2008.

**LFD
COMMENT****Accounting Process Change**

A view of the budget table for the Collection Services Program would give the impression that personal services for the 3.50 FTE would more than double from the base. However, during the base year about 46 percent of the personal services funding was from a direct appropriation of general fund to fund the child support collections costs of the program. The base in the program budget table only shows the proprietary funding for personal services so is understated by \$58,446 due to this general fund support. After considering the general fund support in the base, the effective personal services growth is reduced to 13 percent.

The figure for fund 06554 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

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Fund	Fund Name	Agency #	Agency Name	Program Name
06554	BIT Collection Services	58010	Department of Revenue	Business & Income tax Division

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	\$65,755	\$86,727	\$148,429	\$153,165
Other Operating Expenses	<u>25,896</u>	<u>21,268</u>	<u>39,796</u>	<u>39,787</u>
Total Operating Expenses	91,651	107,995	188,225	192,952
Operating Revenues:				
Charges for Services (non-DOR)	95,730	67,011	57,438	57,438
Charges for Services (DOR)	<u>0</u>	<u>0</u>	<u>73,947</u>	<u>74,054</u>
Revenue From Fees	<u>95,730</u>	<u>67,011</u>	<u>131,385</u>	<u>131,492</u>
Total Operating Revenue	95,730	67,011	131,385	131,492
Operating Gain (Loss)	4,079	(40,984)	(56,840)	(61,460)
Net Assets as of July 1 (Beginning of Fiscal Year)	242,304	246,383	205,399	148,559
Net Increase (Decrease) of Net Assets	4,079	(40,984)	(56,840)	(61,460)
Prior Period Adjustments	0	0	0	0
Cumulative Effect of Account Change	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Assets as of Jun 30 (End of Fiscal Year)	<u>\$246,383</u>	<u>\$205,399</u>	<u>\$148,559</u>	<u>\$87,099</u>

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Collection Services Program - Present Law Adjustments			
		FY 2010	FY 2011
		FTE Costs	FTE Costs
DP 0000 Statewide Adjustments		0.00 \$78,884	0.00 \$79,157

New Proposals

Collection Services Program - New Proposals					
		FY 2010		FY 2011	
		FTE	Costs	FTE	Costs
DP 6101 Fixed Cost Workers Comp Mgmt Program Alloc		0.00	\$111	0.00	\$96

DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process. The decision package would have no impacts on rates for the program.

Proprietary Rates

The department requests that a maximum commission rate of 5 percent continue into the 2011 biennium. Exempted from this rate is collection of overpaid child support payments made to custodial parents or collection of delinquent child support payments from noncustodial parents.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	306.35	306.35	306.35	308.35	306.35	308.35	2.00	0.65 %
Personal Services	14,512,040	14,920,508	15,759,759	15,887,577	29,432,548	31,647,336	2,214,788	7.52 %
Operating Expenses	4,372,271	4,450,215	5,432,850	5,357,760	8,822,486	10,790,610	1,968,124	22.31 %
Equipment & Intangible Assets	8,720	8,722	8,720	8,720	17,442	17,440	(2)	(0.01%)
Debt Service	0	972	0	0	972	0	(972)	(100.00%)
Total Costs	18,893,031	19,380,417	21,201,329	21,254,057	38,273,448	42,455,386	4,181,938	10.93 %
General Fund	18,828,282	19,330,417	21,136,834	21,189,587	38,158,699	42,326,421	4,167,722	10.92 %
State Special	64,749	50,000	64,495	64,470	114,749	128,965	14,216	12.39 %
Total Funds	18,893,031	19,380,417	21,201,329	21,254,057	38,273,448	42,455,386	4,181,938	10.93 %

Program Description

The Property Assessment Division values all residential, commercial, agricultural, forestland, and business equipment property in Montana for property tax purposes. The division is comprised of a central office located in Helena and six regions. There is a local Department of Revenue office in each of the county seats within the regional areas.

Program Highlights

Property Assessment Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The proposed budget for the Property Assessment Division would increase by \$4.2 million or 10.9 percent from the 2009 biennium to the 2011 biennium ◆ Statewide present law adjustments account for nearly 70 percent of the budget increases <ul style="list-style-type: none"> • Personal services in the statewide present law adjustment are the primary cause for the increase due to a phased conversion to the broadband pay plan in FY 2008 ◆ Purchasing handheld personal computers for field staff would add \$794,000 ◆ 2.00 FTE and \$379,000 general fund would be added to address workload impacts from the growth in property parcels as a result of subdividing property in the state ◆ Increases in rent to house staff in private sector and local government office space would add \$258,000 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Objectives for program goals could be strengthened 	

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

During the 2009 biennium the Legislative Finance Committee monitored the goal to complete the current reappraisal cycle in a uniform and equitable fashion by January 1, 2009. The department showed it was on track to complete all activities to complete the reappraisal by the statutory date. Results of measures to determine the quality of the reappraisal in terms of uniformity and equity will not be determined until the 2011 biennium.

The legislature may wish to monitor the outcomes from the assessment of the reappraisal during the 2011 biennium to determine if the efforts made resulted in a uniform and equitable reappraisal.

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. Identified significant goal and objectives for the division follow:

- o Continue to enhance and augment the department's abilities to effectively administer a program of real and personal property discovery and valuation, and provide the state, local governments, and taxpayers with timely and accurate property tax information to ensure fairness and efficiency in state and local government property taxation
 - Increase the operating efficiencies of the Property Assessment Division and reduce taxpayer appeals by purchasing and adapting to property tax applications cost effective, performance-driven information technology tools including hand held laptop computers for use by property appraisers in the field
 - In order to increase the accuracy of property tax information, ensure fairness in property taxation, and further enhance the operating efficiencies of the Property Assessment Division, develop and implement innovative practices and approaches to obtaining property tax information to include: a) implementing a residential property taxpayer self-reporting process, accompanied by an effective taxpayer education program, and b) enhancing and expanding GIS information systems
 - Continue to gauge the accuracy of the 2009 reappraisal process by monitoring the extent to which residential property taxpayers appeal their agricultural land use type(s) (classification). In those cases where residential valuations or classification of agricultural land is appealed, monitor the instances in which the appeals are either withdrawn by the appellant, adjusted by a nominal amount by the department or the appeal board, or sustained in a final appeals decision

LFD ISSUE

Objectives Could Be Strengthened with Time-bound Metrics and Specified Outcomes

The objectives could be strengthened by including specific outcomes along with measures and their timing for assessing if the outcomes were being attained. For example, the objective to gauge the accuracy of the 2009 reappraisal seems to fall short in specifying what outcome is expected from the activities of monitoring the instances of appeals. The division doesn't simply monitor the accuracy of the reappraisal to grade its performance, it monitors the accuracy to identify opportunities to improve so it can move toward the goal of continuing to enhance and augment the department's abilities.

The objectives could be strengthened by outcomes aimed at enhancing and augmenting abilities as well as specifying what activities it would do to address the root causes identified for instances when appraisals are adjusted or appeals sustained. Including measures and the timing for the measures and follow on actions would allow the legislature more insight into the division's operations so it could formulate appropriations policies for the division and monitor the resulting division operations. The legislature may wish to discuss with the division how it could strengthen the objectives with more specifics and linkage to the funding request.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table Property Assessment Division						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 18,828,282	99.7%	\$ 21,136,834	99.7%	\$ 21,189,587	99.7%
01100 General Fund	18,828,282	99.7%	21,136,834	99.7%	21,189,587	99.7%
02000 Total State Special Funds	64,749	0.3%	64,495	0.3%	64,470	0.3%
02320 Property Value. Improv. Fund	64,749	0.3%	64,495	0.3%	64,470	0.3%
Grand Total	\$ 18,893,031	100.0%	\$ 21,201,329	100.0%	\$ 21,254,057	100.0%

Funding for the Property Assessment Division is from general fund and state special revenue in the percentages shown on the above figure. State special revenue is from the property valuation improvement fund and is used for increasing the efficiency of the property appraisal, assessment, and taxation process through improvements in technology and administration. Revenue deposited to the fund is from a fee received as reimbursement for the cost of developing and maintaining the property valuation and assessment system database. The fee is charged to persons, federal agencies, state agencies, and other entities requesting the database or any part of the database from any department property valuation and assessment system. The fee may not be charged to the Office of Budget and Program Planning, the State Tax Appeal Board, or any legislative agency or committee.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	18,828,282	18,828,282	37,656,564	88.97 %	18,893,031	18,893,031	37,786,062	89.00 %
Statewide PL Adjustments	1,585,796	1,634,952	3,220,748	7.61 %	1,585,542	1,634,673	3,220,215	7.58 %
Other PL Adjustments	237,949	398,849	636,798	1.50 %	237,949	398,849	636,798	1.50 %
New Proposals	484,807	327,504	812,311	1.92 %	484,807	327,504	812,311	1.91 %
Total Budget	21,136,834	21,189,587	42,326,421		21,201,329	21,254,057	42,455,386	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2010-----						-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,904,367					1,955,934
Vacancy Savings					(656,648)					(658,721)
Inflation/Deflation					163,272					183,175
Fixed Costs					174,551					154,285
Total Statewide Present Law Adjustments					\$1,585,542					\$1,634,673
DP 80001 - Rent Increases	0.00	115,667	0	0	115,667	0.00	142,290	0	0	142,290
DP 80002 - Improving Property Appraisal Accuracy	0.00	122,282	0	0	122,282	2.00	256,559	0	0	256,559
Total Other Present Law Adjustments	0.00	\$237,949	\$0	\$0	\$237,949	2.00	\$398,849	\$0	\$0	\$398,849
Grand Total All Present Law Adjustments					\$1,823,491					\$2,033,522

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

LFD COMMENT

As with the rest of the department, the division converted to the broadband pay plan during FY 2008. In the process, the division provided market adjustment pay raises that averaged roughly 14.9 percent in two batches, one nearly halfway through the base year and the other at the end of the base year.

The timing of the market adjustments is why statewide present law adjustments account for nearly 70.0 percent of all the division budget growth from the 2009 biennium to the 2011 biennium.

o Market Rate

- The Property Assessment Division follows the agency policy for market percent with no exceptions identified
- The statewide personal services adjustment represents salaries for the office at 92.7 percent of market relative to the adopted market survey, which corresponds to 99.0 percent of the market determined in the 2008 executive branch market survey

o Vacancy - No specific job classifications are showing high turnover rates or difficulties with recruitment and retention

o Legislatively applied vacancy savings - The division used normal staff turnover to manage to the 4.0 percent legislatively applied vacancy savings rate.

LFD COMMENT

In terms of FTE-hours, the division experienced a 6.3 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 3.1 percent

o Pay Changes - The conversion to the broadband pay plan was funded through a combination of holding vacant positions open and using the 0.6 percent discretionary portion of HB 13. Funds were not transferred from other budgeted expenditure categories.

LFD COMMENT

Market adjustments to align division staff salaries to the agency market policy of between 80 and 95 percent of market resulted in average hourly pay raises of nearly five times the amount of the 3.0 percent HB 13 salary adjustments.

- o **Retirements** - The division anticipates fifteen employees would be eligible for full retirement in the 2011 biennium and these retirements would result in about \$219,000 in unfunded compensated absence liability

DP 80001 – Present Law Base Adjustment – Property Assessment – An increase of \$257,957 general fund is requested to pay for increases for office space rent for division staff throughout the state.

LFD COMMENT	<p>Rent Increases</p> <p>The department houses over 300 employees in offices located in all 56 counties of the state. The department occupies both county owned and private lease space.</p>
	<p>When space is available in a building owned by a county, Montana law allows the county to charge the department for leasing the space. The law limits the cost for the space to the rate charged by the Department of Administration (DOA) to state agencies for rent of state buildings. For the space subject to the DOA rental rate cap, the request anticipates increasing the square foot cost from \$8.179 per square foot rate approved by the legislature for FY 2008 to \$8.869 in FY 2010 and \$9.002 in FY 2011 as proposed in the executive budget for DOA. About 39 percent of the non-state space is occupied in local government buildings.</p>
	<p>Space occupied in private sector space comprises 61 percent of the lease space the division occupies in buildings not owned by the state. For space leased from the private sector, increases are based on lease contract inflation clauses. The average square foot cost for private space is expected to be \$15.369 in FY 2010 and \$15.897 in FY 2011.</p>
	<p>Budget increases to fund the remaining division office space in state buildings is included in the fixed cost item of the statewide present law adjustments shown above. For the division, the increases for state buildings would be \$49,652 for FY 2010 and \$50,396 for FY 2011 at the proposed DOA rates.</p>

DP 80002 - Improving Property Appraisal Accuracy - An increase of \$378,800 general fund is requested to add 2.00 FTE property appraisers beginning in FY 2011 to address workload issues caused by a growth in the number of property parcels in Montana. The request would also provide funding to: 1) implement a system for property owners to self-report on their property (\$144,500); and 2) implement an educational/informational taxpayer program (\$156,000). Funding for the self-reporting program would fund costs of mailing self-reporting forms to 25 percent of all residential and agricultural property owners.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The Property Assessment Division (PAD) is currently understaffed and at risk of not effectively completing its statutory requirements. Moreover, with the ongoing growth that continues to occur in the state, it is important that more realistic staffing levels be provided to ensure effective and responsive service for the citizens of Montana. This request will help the division start down that path. In 1994, the work allocation was 2,162 parcels per FTE, and today it is 3,113 parcels per FTE. Even with this proposal the parcels per FTE ratio is expected to grow to 3,187 by the end of the 2011 biennium. However, without it the ratio would grow to 3,207 parcels per FTE.

A real property self reporting process is expected to increase taxpayer awareness and participation in the property tax process, improve the accuracy of information collected, and provide assurance to citizens that property is accurately identified and fairly taxed. It will also allow division staff the opportunity to collect the internal data on property for tax purposes. Since staff is currently only able to make direct contact with approximately 30 percent of taxpayers, it will help provide much needed information on the internal characteristics of improvements. It will also help the department target its limited resources in the identification of remodeling and new construction that is missed under current practices (i.e.,

no building permits, etc).

Without this decision package, significant numbers of new properties or improvements made to existing properties will not be assessed in a timely fashion or possibly at all. That translates to unequal treatment of taxpayers, and property tax collections that are not adequate for local governments to pay for needed services. It also results in fewer dollars for state support of education. The department's constitutional charge to provide a fair and equitable property tax system will be hampered.

Goal: The goals of the request are to:

- o Reduce the workload per staff member that will otherwise increase without the request
- o Improve the accuracy of the information gathered by the division and providing taxpayers a process that engages them cooperatively in the tax system

The goals of this proposal are directly on target with the mission of the department.

Performance Criteria: Property Assessment Division central office staff will monitor the FTE workload requirements on an annual basis. Central office staff will monitor the number and accuracy of real property self reporting forms that are returned to the department on an annual basis.

Milestones: Major milestones include:

- o FY 2010 milestones
 - Finalize self reporting form – Third Quarter 2009
 - Provide secure web based self reporting options – Fourth Quarter 2009
 - Mail self reporting forms – Fourth Quarter 2009
- o FY 2011 milestones
 - Mail self reporting forms – Fourth Quarter 2010
 - New appraisers (2.00 FTE) hired – Third Quarter 2010

FTE: 2.00 FTE not yet classified grade 05

- o New appraisal positions being requested will be placed in the location(s) where they are most needed, based upon workload. The appraisers will locate and value new construction and land use changes. They will also value properties in accordance with the cyclical reappraisal effort
- o Existing Property Assessment Division central office staff will develop and implement the self reporting form with the assistance of a graphics design company, and field staff will participate in the ongoing processing of self reporting forms and the ongoing responses to taxpayers on the self reporting process

Obstacles: Potential obstacles include:

- o Providing information to taxpayers that convinces them of the benefits and need to accurately report property characteristics. The department may use focus groups before and, dependent on the response, after it mails self reporting forms to help ensure its message is understandable and convincing
- o Developing a secure web based self reporting capability for taxpayer use. In case this capability takes longer to implement than planned, the department will begin to investigate whether other technological options are possible
- o Ensuring the department's Orion system is updated with all the data provided by taxpayers. If there is a large volume of information that must be either entered into the Orion system or field reviewed, the department will determine the feasibility of allowing overtime for existing staff or hiring temporary staff to help complete the work

Risk: Potential risks include:

- o Inability to keep experienced property tax appraisers on staff due to workload
- o Diminished ability to locate and value new construction and land use changes due to workload impacts
- o Adverse impact on the quality of reappraisal due to workload impacts

- Unequal treatment of taxpayers
- Inadequate property tax collections for local governments to pay for needed services and for state support of education

New Proposals

New Proposals										
Program	FTE	Fiscal 2010				FTE	Fiscal 2011			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation										
08	0.00	9,807	0	0	9,807	0.00	8,504	0	0	8,504
DP 80008 - Improve Efficiency through Field Computers -OTO										
08	0.00	475,000	0	0	475,000	0.00	319,000	0	0	319,000
Total	0.00	\$484,807	\$0	\$0	\$484,807 *	0.00	\$327,504	\$0	\$0	\$327,504 *

DP 6101 - Fixed Cost Workers Comp Mgmt Program Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

DP 80008 - Improve Efficiency through Field Computers -OTO - An increase of \$794,000 general fund for the biennium is requested to purchase hand held laptop computers and associated software for division staff to use in field work. These computers would allow staff to capture and maintain property information while in the field and would eliminate duplication in the current process, where the information is recorded in paper form while in the field and then entered into the property tax system once the staff is back in the office. The executive recommends the legislature designate funding for this request as one time only.